Position Paper
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On building a proportionate regulatory environment to support SME listing

EUROCHAMBRES welcomes the actions undertaken by the European Commission intended to create a favourable regulatory environment to support SMEs listing. This is a corner-stone for achieving a fully functioning Capital Markets Union. The benefits deriving from accessing public markets and equity capital are undeniably consistent but should be balanced with potential costs arising from such activities. In the last decade there has been a considerable drop in the number of SMEs listed which have almost halved. The reasons behind this diminishing numbers shall be the matter of inquiry for future policy making.

Pursuing this goal EUROCHAMBRES, as a representative of the European framework of Chambers of Commerce and Industry and the small and medium sized enterprises, following its stakeholders consultation identified the following impediments to listing in public markets and accessing equity or debt capital.

There are three main issues negatively affecting SMEs capacities to access public markets and which explain the sluggish activity in this field.

- **The first and principal reason behind the reduced number of SMEs seeking a listing lies on the fact that there are few entrepreneurs willing to undertake such a process.**
- **Second, the local ecosystems that are able to support companies at the IPO stage (i.e. the network of SME specialists surrounding the local exchanges) are under pressure in many Member States.**
- **Third, there is a lack of institutional and retail investors for SME financial instruments.**

Concerning the weak pipeline of SMEs seeking a listing, entrepreneurs generally do not feel fully capable of anticipating all the consequences resulting from a listing. The exposure to investors' expectations creates sometimes unjustified pressures with regard to turnover or results which, if not met, could potentially cause unexpected losses. In some circumstances the fall in the value of a share could be caused simply by a negative feeling or by communication activity. More generally, the possibility of losing control and a prospective take-over of the company by external investors, together with the risk of exposing trade secrets, are issues which refrain entrepreneurs from seeking a listing. Low levels of financial literacy and a rather sparse and scarce presence of expert interlocutors in SMEs contribute to making the process even less attractive both for investors and entrepreneurs. Finally, high access and due diligence costs also have a negative impact.

As for the deteriorated ecosystem, the principal causes can be found in the low appetite investment funds have for equity and bond instruments related to SMEs, because they generally involve higher risks and lower profitability- given higher expected losses. This decline seems to be particularly acute for equity and bond brokers specialising in SMEs. Due to regulatory and technological changes, equity trading is focusing on large caps, thus leading to a decline in the liquidity of SME shares. Investment banks usually require IPO volumes which exceed SMEs needs and consequently tend to avoid the management of these operations. Furthermore, these markets and the assets therein- both equity and debt bonds- are scarcely liquid and this causes high share volatility which creates difficulties particularly for institutional investors. Investors have less propensity to invest in equities due to discriminatory practices in tax regimes which usually assign unfavourable conditions to this kind of investments compared to debt and other forms. **For these reason, ways to incentivise and lighten the hurdle represented by taxation should be a key priority for future policy making at EU level.**

Several factors might explain the lack of institutional and/or retail investors operating on SMEs, such as regulatory barriers to investments, lack of visibility of SMEs towards investors, lower investor confidence in this asset class and lack of tax incentives. Regulatory drawbacks tracing back to e.g. Solvency II requirements and inappropriate rules covering depreciation, amortization and valuation particularly inhibit institutional investments in private equity funds. **Regulatory impediments to investments in private equity should be reduced and possibly simplified.** This would have an indirect, albeit positive impact on SME Growth Market by incentivising private equity investors and cause eventually a higher number of SMEs seeking an admission of their shares on EU public markets. More IPOs of SMEs would finally contribute to solve the problem mentioned above, that is higher liquidity in public markets and, thus, lower volatility of shares. Consequently, institutional investors as well would have more incentives for investing in SME stocks.

There are nonetheless additional factors standing as obstacles. The barrier represented by the lack of a common language, differences in local accounting standards, hence mutual understanding should be taken into account and could be solved by **creating new or enhancing existing facilities and advisory bodies providing official and certain information at European level**. Limited EU data on capital market services and scarce analysts coverage are also to be considered. Accordingly, **EUROCHAMBRES calls upon the Commission to examine the effects of MiFID II on the analysts coverage of SME stocks**. In conclusion, the presence of alternative source of financing to equity, represented by bank loans and similar instruments, relatively convenient and affordable to SMEs, could also help explain why few entrepreneurs resort to listing.

Regarding requirements and obligations for firms listed on SME Growth Markets, EUROCHAMBRES discourages any provision aimed at rendering the presence of a key adviser compulsory for SMEs throughout the whole period of permanence in the market. On the contrary, the activities of the European Commission should be informed by simplicity and streamlined criteria. **It is important to keep requirements at minimum levels, sufficient to guarantee markets' stability and investors protection, while not being a further cause of impediment for SMEs**. As outlined above they already encounter a demanding environment. Namely, the most burdensome EU requirements in SMEs dedicated markets are management's transactions and half-yearly reports for SME Growth Market issuers.

Whereas a company should decide to undertake and successfully complete the listing process in a SMEs Growth Market, **it is important that the permanence in the latter be left upon owner's discretion.** Imposing thresholds after which the transferring in a regulated market becomes compulsory could be counterproductive. Issuers might see these prospective costs as prohibitive and therefore also discourage them to initially undertake listing in a SMEs Growth Market. In conclusion, **It would also certainly help simplifying the inverse process, that is delisting, which with minimum requirements would become less costly.**

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